Saskatchewan Research Council Employees' Pension Plan

Annual Report 2003

Table of Contents

HIGHLIGHTS 2

INTRODUCTION 3

ORGANIZATION 3

OVERVIEW 4

INVESTMENT OF FUNDS 5

INVESTMENT SUMMARY 6

MEMBERSHIP STATUS 6

ADMINISTRATION OF THE PLAN 6

FINANCIAL STATEMENTS 7

SRC Pension Plan Highlights
December 31, 2003

Defined Benefit Plan

The surplus in the defined benefit plan was $196,000 at December 31, 2003 compared to a deficit of $52,000 at December 31, 2002. The change is attributable to market gains and mortality gains.

There was a decrease in the defined benefit plan obligation of $196,000 from $2,704,000 to $2,508,000 as a result of Plan experience. Two pensioners passed away in 2003.

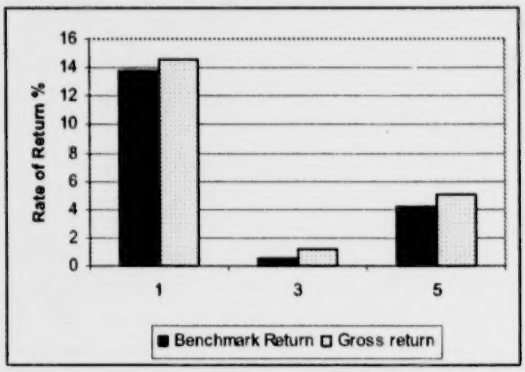
Defined Contribution Plan

The refund upon termination in 2003 was higher than 2002 as a result of the mix of staff retiring and leaving SRC.

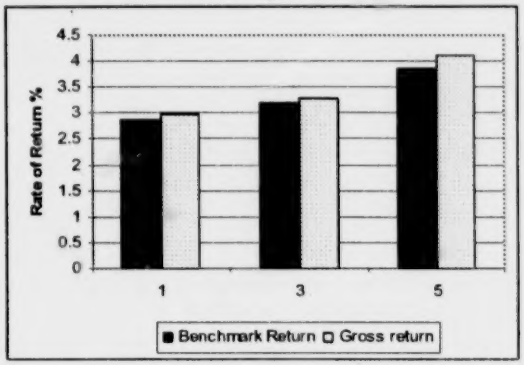
There was a net increase of four (4) members for the defined contribution plan.

Rates of Return (pre-fee)

Balanced Pension Trust Fund



Canadian Money Market Fund



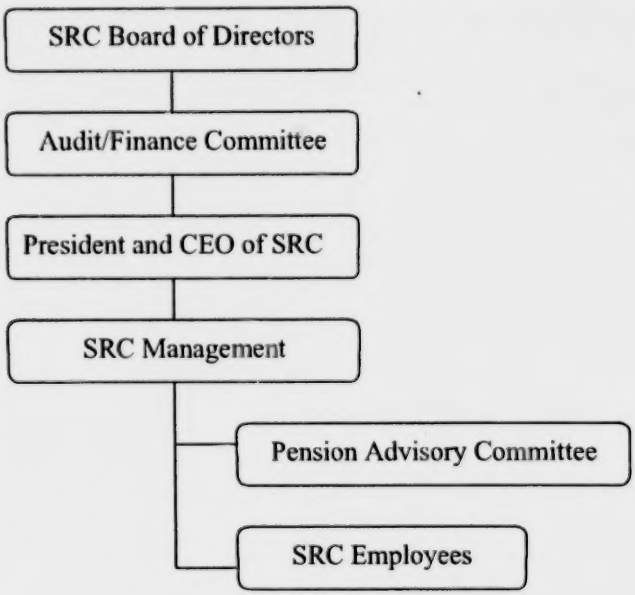
The two charts above show the gross or pre-fee rate of return compared to the benchmark rate of return for the Balanced Pension Trust Fund and the Canadian Money Market Fund. For the one, three and five year periods, both funds exceeded the benchmark return.

INTRODUCTION

The Saskatchewan Research Council Employees' Pension Plan (Plan) was established in accordance with the *Income Tax Act* (Canada), and *The Pension Benefits Act, 1992* (Chapter P-6.001 of the Statutes of Saskatchewan) and the regulations thereunder.

The Plan was established for permanent employees on May 1, 1974 for the purpose of providing retirement benefits to Saskatchewan Research Council (SRC) employees. Up to and including December 31, 1990, the Plan provided the greater of a defined benefit or a defined contribution entitlement for Members of the Plan. Effective January 1, 1991, the Plan was amended and restated to provide solely a defined contribution benefit to Members. The changes do not affect existing pensioners who will continue to receive benefits as granted.

ORGANIZATION



The Plan is administered by SRC. The Audit/Finance Committee of the Board of Directors oversees the Plan. The President and CEO, in conjunction with SRC management, is responsible for the day-to-day operations of the Plan. The Pension Advisory Committee (PAC) promotes awareness and understanding of the Plan, periodically reviews the results of the Plan, and advises SRC and Plan Members with respect to matters of concern to the Members. The PAC is comprised of a maximum of five members, of which one is from SRC's senior management and two to four are appointed by SRC from the list of Plan Members.

OVERVIEW

The following overview of the Plan is a summary only. For more complete information, reference should be made to the Plan Agreement.

All full time employees of SRC shall join the Plan on the date of employment. An employee who is employed by SRC on a less than full time continuous basis shall join the Plan on the date on which they have completed 24 months of less than full time continuous employment with SRC provided they have received earnings of at least 35% of the Year's Maximum Pensionable Earnings (YMPE) as defined under the Canada Pension Plan, in each of the two consecutive calendar years immediately prior to joining the Plan.

The employer contributes 4.875% of the Member's Earnings up to the YMPE and 7.5% of the Member's Earnings above the YMPE, on a monthly basis. In any Plan year, a Member is not required nor permitted to make contributions to the Plan.

Defined Benefit Pensioners receive benefit increases effective April 1st of each year based on CPI increases to the extent investment earnings exceed 6% in the previous calendar year. As of April 1, 2004 the defined benefit pensioners will receive an automatic increase. The last increase was effective April 1, 2001. The SRC Board of Directors passed a resolution, such that in a year where indexing of pension benefits, as established under the Plan, does not provide for an automatic increase, or where the automatic increase is less than the maximum permitted, the Board will review the status of the Plan and may provide for an ad hoc increase.

Upon application and subject to lock-in provisions, termination refunds are payable when a member ceases to be employed by SRC.

Upon retirement, a transfer is available based on the Member's accumulated balance to another pension plan, a Locked-In Retirement Account Contract, a Life Income Fund Contract, a Locked-In Retirement Income Fund Contract or to purchase a life annuity contract. A member may direct all or any portion of their Plan account to one or any combination of these benefits to provide and protect their retirement income. Alternatively, a member may use their Plan account or a Locked-In Retirement Account (LIRA) as a holding account until the member needs to convert the money into retirement income. The member, however, must purchase a pension benefit from their LIRA by the end of the calendar year in which they turn 69.

In the event of the death of a Member before retirement, the sum of the amounts in the Member's account at the date of death shall be payable to the Member's Spouse, or to his/her beneficiary if there is no Spouse. The Member's Spouse may elect to purchase an immediate annuity with the Member's account balance, transfer the balance to a deferred life annuity, transfer the balance to the Spouse's existing registered pension plan, or transfer the balance to a Locked-In Retirement Account Contract.

INVESTMENT OF FUNDS

SRC is responsible for holding in trust and investing the Plan assets. SRC has retained Phillips, Hager & North Investment Management Ltd. (PH&N) as investment managers. As at December 31, 2003, the defined benefit plan is limited to being invested in PH&N's Balanced Pension Trust fund and the defined contribution plan is limited to being invested in the Balanced Pension Trust fund and in PH&N's Canadian Money Market fund.

The investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to meet the long-term objectives of the Plan, as set forth by SRC management and the PAC. SRC management and the PAC review the investment performance of the Plan in terms of the performance of the benchmark portfolio over five-year rolling periods. The long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio over a five-year period, before management fees. The benchmark return is defined as:

35.0% S&P/TSX Capped Composite Index
25.0% Morgan Stanley Capital International World Index (ex Canada)
35.0% Scotia Capital Markets Universe Bond Index
5.0% Scotia Capital Markets 30 day T-Bill Index

Additionally, consideration will be given to the administrative fees that are assessed by a review of comparison funds to ensure that reasonable administration charges are being made.

The following table compares the fund's annualized gross rate of return to the investment objective return (the return of the benchmark portfolio) as of December 31, 2003.

Period ending December 31, 2003	Benchmark Return	Annualized Gross Return
One year return	13.81%	14.56%
Three year return	0.55%	1.20%
Five year return	4.18%	5.10%

The investment manager is to invest the Plan assets under its control in a diversified portfolio of qualified investments as defined by the *Income Tax Act* (Canada) within the following range of investment discretion:

	% of Portfolio at Market Value	
Type of Investment	**Minimum**	**Maximum**
Canadian Equities	30.0%	40.0%
Global Equities	20.0%	30.0%
Bonds	30.0%	40.0%
Cash and Short-term Notes	0.0%	15.0%

Note: The 30% of portfolio at market value invested in foreign equities is not to be confused with the Canada Customs and Revenue Agency's maximum allowable limit of 30% of portfolio value at cost invested in foreign equities.

INVESTMENT SUMMARY

The investment portfolio at December 31, 2003 contained the following assets:

Type of Investment	Percentage of Total Portfolio
Canadian Equities	37.8%
Global Equities	26.1%
Bonds	30.6%
Cash and Short-term Notes	5.5%
Total Investments	100.0%

MEMBERSHIP STATUS

Defined Benefit Plan

During 2003, two pensioners passed away; one of these had a surviving spouse who will receive pension payments. Of the twenty-two (22) individuals receiving pension payments at December 31, 2003, thirteen (13) are retirees and nine (9) are surviving spouses.

Defined Contribution Plan

Membership as at December 31, 2002		196
Add:		
Enrollments during the year		19
Less:		
Termination of membership in the Plan	14	
Retirements	1	
Death	0	
Total exits		15
Membership as at December 31, 2003		200

ADMINISTRATION OF THE PLAN

SRC provides day-to-day administration of the Plan. In fulfilling this role, the following duties are performed by SRC:

- provide information to employees about the Plan;
- monitor the investment of the pension fund assets;
- remit pension contributions for employees;
- keep appropriate financial records for the Plan;
- select and retain appropriate third party specialists to assist with specific duties for the Plan.

The annual operating expenditures associated with the Plan's administration were paid by SRC and not charged to the Plan during 2003.

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN

FINANCIAL STATEMENTS

For the Year Ended December 31, 2003

REPORT OF MANAGEMENT
Year ended December 31, 2003

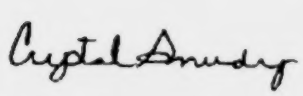
The accompanying financial statements are the responsibility of the management of the Saskatchewan Research Council. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. Management is also responsible for maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit/Finance Committee, which is composed of five non-management directors and one management director. The Committee meets periodically with management to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

The Provincial Auditor of Saskatchewan has audited the Saskatchewan Research Council Employees' Pension Plan financial statements in accordance with Canadian generally accepted auditing standards and his report follows.

Laurier Schramm
President and CEO



Crystal Smudy, CA
Chief Financial Officer

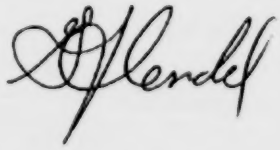
AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets available for benefits and accrued pension benefits and surplus/(deficit) of The Saskatchewan Research Council Employees' Pension Plan as at December 31, 2003 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. The Plan's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus/(deficit) of the Plan as at December 31, 2003 and the changes in the net assets available for benefits and changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.



Regina, Saskatchewan
February 20, 2004

Fred Wendel, CMA, CA
Provincial Auditor

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND SURPLUS/(DEFICIT)
As At December 31
(Thousands of dollars)

	2003			2002		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
ASSETS						
Pooled fund (Note 4)	$ 2,709	$ 16,925	$ 19,634	$ 2,659	$ 15,874	$ 18,533
Total assets	$ 2,709	$ 16,925	$ 19,634	$ 2,659	$ 15,874	$ 18,533
LIABILITIES						
Accounts payable	$ 5	$ -	$ 5	$ 7	$ -	$ 7
Total liabilities	$ 5	$ -	$ 5	$ 7	$ -	$ 7
Net assets available for benefits (Statement 2)	$ 2,704	$ 16,925	$ 19,629	$ 2,652	$ 15,874	$ 18,526
Actuarial accrued pension benefits (Statement 3)	2,508	16,925	19,433	2,704	15,874	18,578
SURPLUS/(DEFICIT)	$ 196	$ -	$ 196	$ (52)	$ -	$ (52)

(See accompanying notes to the financial statements)

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Year Ended December 31
(Thousands of dollars)

	2003			2002		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
INCREASE IN ASSETS						
Investment income	$ 75	$ 454	$ 529	$ 88	$ 487	$ 575
Current period change in market values of investments	289	1,739	2,028	-	-	-
Contributions	5	511	516	-	485	485
Total increase in assets	$ 369	$ 2,704	$ 3,073	$ 88	$ 972	$ 1,060
DECREASE IN ASSETS						
Administration (Note 9)	$ -	$ -	$ -	$ 54	$ -	$ 54
Current period change in market values of investments	-	-	-	349	1,857	2,206
Refunds and transfers	-	1,653	1,653	-	1,159	1,159
Retirement benefits	317	-	317	339	-	339
Total decrease in assets	$ 317	$ 1,653	$ 1,970	$ 742	$ 3,016	$ 3,758
Increase (decrease) in net assets	$ 52	$ 1,051	$ 1,103	$ (654)	$ (2,044)	$ (2,698)
Net assets available for benefits, beginning of year	2,652	15,874	18,526	3,306	17,918	21,224
Net assets available for benefits, end of year - to Statement 1	$ 2,704	$ 16,925	$ 19,629	$ 2,652	$ 15,874	$ 18,526

(See accompanying notes to the financial statements)

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
Year Ended December 31
(Thousands of dollars)

	Defined Benefit (Note 5)	
	2003	2002
Accrued pension benefits, beginning of year	$ 2,704	$ 2,801
Increase in accrued pension benefits		
Interest on accrued benefits	153	158
Pensioner increases (Note 1 (e))	70	-
Experience losses (Note 6)	-	84
	$ 223	$ 242
Decrease in accrued pension benefits		
Benefits paid	$ 317	$ 339
Experience gains (Note 6)	102	-
	$ 419	$ 339
Accrued pension benefits, end of year - to Statement 1	$ 2,508	$ 2,704

(See accompanying notes to the financial statements)

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2003

1. Description of the Plan

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan Agreement. The Plan is administered by the Saskatchewan Research Council (SRC). The Pension Plan Advisory Committee (PAC) promotes awareness and understanding of the Plan, periodically reviews the results of the Plan, and discusses with SRC and Plan Members matters of concern to the Members. The PAC is comprised of a maximum of five members, of which one is from the SRC's senior management and two to four are appointed by SRC from the list of Plan Members.

(a) General

The Saskatchewan Research Council Employees' Pension Plan was established May 1, 1974 for the purpose of providing retirement income to SRC's employees. Up to and including December 31, 1990, the Plan provided the greater of a defined benefit or a defined contribution entitlement for Members of the Plan. Effective January 1, 1991, the Plan was amended and restated to provide solely a defined contribution benefit to Members. The changes do not affect existing pensioners who will continue to receive benefits as granted.

(b) Funding Policy

The employer contributes 4.875% of the Member's Earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 7.5% of the Member's Earnings above the YMPE, as defined under the Canada Pension Plan, on a monthly basis. Under the terms of the Plan, members are neither allowed nor permitted to make contributions to the Plan.

(c) Retirement

Upon retirement, a transfer is available based on the Member's accumulated balance to another pension plan, a Locked-In Retirement Account Contract, a Life Income Fund Contract, a Locked-In Retirement Income Fund Contract or to purchase a life annuity contract.

(d) Termination Refunds

Upon application and subject to lock-in provisions, termination refunds are payable when a member ceases to be employed by SRC.

1. Description of the Plan (continued)

(e) Defined Benefit Pensioners

Pensioners receive benefit increases effective April 1st of each year based on CPI increases to the extent investment earnings exceed 6% in the previous calendar year. Based on the Plan rate of return, the pensioners will receive an increase on April 1, 2004. The last increase was effective April 1, 2001.

The SRC Board of Directors passed a resolution, such that in a year where indexing of pension benefits, as established under the Plan, does not provide for an automatic increase, or where the automatic increase is less than the maximum permitted, the Board will review the status of the pension plan and may provide for an ad hoc increase.

2. Summary of Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following principles are considered to be significant:

Basis of Accounting

These financial statements are prepared using the accrual basis of accounting.

Investments

Units in the pooled fund are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the investments in the pooled fund's portfolio divided by the total number of outstanding units in that fund. The adjustments necessary to record units at their net asset value at the year end are shown as an increase or decrease in net assets available for benefits.

Additional units are acquired when distributions are made by the fund. Cash dividends are not paid by the fund, however, investors can realize changes in the underlying unit values by redeeming units.

3. Accounts Payable

The balance is due to SRC and is comprised of payments made on behalf of the pension fund.

4. Pooled Fund

The investment objectives of the Plan are to ensure that the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. The strategy employed to achieve these objectives is to invest cash flows from contributions into assets such as a pooled fund.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

Credit risk arises from the potential for an issuer to default on its contractual obligations to the Plan. The Plan limits credit risk by dealing with issuers that are considered to be high quality.

The investment is comprised of units in Phillips, Hager & North Balanced Pension Trust Fund. The Balanced Pension Trust Fund has no fixed interest rate, and its returns are based on the performance of the fund. The fair value of the investment is considered to be the market value, the calculation of which is described in Note 2.

5. Obligations for Pension Benefits

The present value of the defined benefit obligation was determined using the projected benefits method prorated on service and the administrator's best estimate assumptions. Aon Consulting Inc. performed an actuarial valuation as at December 31, 2003 and as at December 31, 2002.

The pension obligation is based on a number of assumptions about future events including: interest rate, mortality and inflation. Actual rates may vary significantly from the long-term assumptions used.

Investment earnings in excess of 6% will be applied to provide increases to all defined benefit pensioners in receipt of benefits, which are paid from the pension fund. Therefore, the significant long-term assumption used in determining the actuarial value of accrued pension benefits was:

Interest rate 6%

Upon termination of the defined benefit portion of the Plan, any balance remaining, after discharging all liabilities, shall belong to SRC. The balance may be distributed in a manner to be determined by SRC, at its sole discretion, after receiving prior approval in accordance with *The Pension Benefits Act, 1992*, the *Income Tax Act (Canada)* and the regulations thereunder.

5. Obligations for Pension Benefits (continued)

The pension obligation is long term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling pension obligations. Therefore, determination of the fair value of the pension liability is not practicable.

6. Experience gains / losses

The experience gains in 2003 are the result of the Plan experiencing higher mortality rates during the year than those projected by the mortality table used by the actuary.

7. Investment Performance

The investment manager makes day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by SRC and the PAC. SRC and the PAC review the investment performance of the Plan in terms of the performance of the benchmark portfolio over 5 year rolling periods. The long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio. Results for the year ended December 31, 2003 compared to the benchmark are as follows:

Period ending December 31, 2003	Benchmark Return	Annualized Gross Return
One year return	13.81%	14.56%
Three year return	0.55%	1.20%
Five year return	4.18%	5.10%

8. Related Party Transactions

SRC provides general administrative services without charge.

9. Administration

Adminstration costs may be paid out of the Plan assets as provided for in the Plan text. Since the Plan was in a deficit position at January 1, 2003, the Board of Directors concurred with management's recommendation that SRC would not be reimbursed for administration costs for 2003 (approximately $44,000). During 2002, the following administration costs were paid out of the Plan assets.

	2003	2002
Canada Life	$0	$36,936
Other payees	$0	$16,549
Total administrative expenses	$0	$53,485

10. Subsequent Events

Subsequent to year end, the Audit / Finance committee of the Board recommended that the Board of Directors approve an ad hoc increase for the defined benefit pensioners. The ad hoc increase is for the Plan year ended December 31, 2001, which did not result in an automatic increase as returns did not exceed 6%. This recommendation will be reviewed by the Board of Directors at the March 2004 meeting. The expected cost of this ad hoc increase is not included in the calculation of the surplus. If the recommendation is approved, the estimated cost will reduce the surplus by $25,000 and the increase would be effective April 1, 2004.